

Message Text

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ACTION EB-07

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R 101251Z MAY I

FM AMEMBASSY LAGOS

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E.O. 11652: N/A

TAGS: BENC, ENRG, NI

SUBJECT: MAJOR PROJECT: PETROCHEMICAL COMPLEX

REF: STATE 104494

1. PETROLOFF PAID CALL MAY 9 ON DR. E.I. ONYIA, PROJECT LEADER, PETROCHEMICAL UNIT, MINISTRY OF INDUJWRIES (MOI) TO DISCUSS STATUS PETROCHEMICAL COMPLEX. ONYIA HAS BACKGROUND IN PRIVATE PETROCHEMICAL INDUSTRY, WORKED IN ETHYLENE FOR BOTH NONTEDISON AND TECHNIP PRIOR COMING BACK TO NIGERIA. HIS COMMENTS KNOWLEDGEABLE AND FRANK.

2. ONYIA SAID SELECTION OF MANAGING CONTRACTOR (OR PROJECT MANAGER), WILL BE MADE BY END OF JUNE. FMG NEEDED APPOINT MANAGING CONTRACTOR (MC) BEFORE PRECEEDING FURTHER WITH THIS COMPLEX PROJECT BECAUSE PRESENT CONSULTANT, CHEM SYSTEMS, WHILE CAPABLE DOING EARLY STAGE FEASIBILITY AND DESIGN STUDIES, HAS NO REAL EXPERIENCE IN CONSTRUCTION ENGINEERING. MC'S ROLE THUS EXTENSION OF PRESENT CONSULTANT'S FUCTION. MC WILL UNDERTAKE DETAILED SITE SURVEYS, DEFINE INFRASTRUCTURE NEEDS, HELP WITH SELECTION OF ETHYLENE PLANT CONTRACTOR, AND ASWST MOI IN DECIDING WHETHER TO ISSUE DETAILED OR GENERAL SPECIFICATIONS IN BID DOCUMENTS. (DETAILED SPECS WOULDNCVE TIME BUT LIMIT CONTRACTOR FLEXIBILITY, WHILE GENERAL SPECS LIMITED OFFICIAL USE

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WILL PRODUCE DIFFERENT PROPOSALS FROM EACH CONTRACTOR AND TAKE MORE TIME TO EVALUATE.) MC PRECLUDED FROM BIDDING ON CONSTRUCTION OF ETHYLENE PLANT, OR FROM SELECTING ITS OWN ETHYLENE TECHNOLOGY. ONYIA CONFIRMED THAT ROSTER OF CANDIDATES FOR MC DELIBERATELY EXCLUDED DESIGN ENGINEERING IGNSTRUCTION FIRMS KNOWN TO BE LEADING SPECIALISTS IN ETHYLENE.

3. ONYIA SAID SELECTION OF OPERATING PARTNER TO MANAGE ENYYLENE PLANT WILL PROBABLY BE MADE FROM AMONG FIRMS SELECTED AS JOINT-VENTURE OPERATING PARTNERS FOR DOWNSTREAM FACILITIES. MOST LIKELY CHOICE WOULD BE FIRM PRODUCING LOW-DENSITY POLYETHYLENE SINCE THAT PROCESS WILL CONSUME MOST OF ETHYLENE. HOWEVER, ALSO POSSIBLE ETHYLENE CONTRACTOR WILL BE ASKED OPERATE ETHYLENE PLANT. DECISION WHICH WAY TO PROCEED WILL BE MADE BY TIME BID DOCUMENTS PREPARED. DOWNSTREAM JOINT-VENTURE PARTNERS WILL HAVE SOME SAY IN SELECTION OF ETHYLENE TECHNOLOGY.

4. TIMETABLE FOR ETHYLENE PLANT AS FOLLOWS: JUNE, MC HIRED; JULY, MC REVIEWS PROJECT PROGRESS; AUGUST-SEPTEMBER, MC UNDERTAKES SITE INVESTIGATIONS, MOI INVITES PREQUALIFICATION APPLICATION FROM CONTRACTORS; OCTOBER, PREPARATION OF BID DOCUMENTS; NOVEMBER-DECEMBER, BID DOCUMENTS READY.

5. IN ADDITION TO ETHYLENE PLANT AND DOWNSTREAM PROCESS PLANTS, THERE WILL BE DESIGN AND CONSTRUCTION CONTRACTS FOR OFFSITE INFRASTRUCTURE AND UTILITIES. MOREOVER, SINCE PETROCHEMICAL COMPLEX, FERTILIZER PLANT, AND ONE OF THE DIRECT REDUCTION STEEL MILLS WILL BE LOCATED ON ADJACENT PLOTS IN PORT HARCOURT, MOI HAS DECIDED THAT INFRASTRUCTURE FACILITIES COMMON TO ALL THREE PROJECTS, SUCH AS NEW TOWNSHIP, ROADS, WATER SUPPLY AND SEWAGE, WILL FORM SEPARATE CONTRACT. ONYIA EXPLAINED MOI WANTS MC DESIGNS ROADS, BUILDINGS, TANKS, FIRE SYSTEMS UTILITIES SITUATION WITHIN PETROCHEMICAL COMPLEX. WHETHER OR NOT MC CAN ALSO BID ON CONSTRUCTION THESE FACILITIES NOT YET DECIDED. HOWEVER, INFRASTRUCTURE COMMON TO ALL THREE PROJECTS TO BE DESIGNED AND BUILT NOT BY MC BUT BY ONE OF FIRMS WITH WHOM FMG NOW NEGOTIATING JOINT-VENTURE CONSTRUCTION LIMITED OFFICIAL USE

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CONTRACTS. THIS MAY PUT BECHTEL IN UNIQUELY ADVANTAGEOUS SITUATION SINCE IT NOT ONLY ONE OF FINALISTS FOR PETROCHEMICAL MC JOB, BUT ALSO NEGOTIATING JOINTSVENTURE CONSTRUCTION RELATIONSHIP WITH FMG.

6. FLUOR IS APPRENTLY OUT OF CONTENTION FOR MC JOB. IN MARCH, FLUOR REPRESENTATIVE JACK DUKE TOLD PETROFF FLUOR WOULD NOT BE INTERESTED IN BIDDING ON MC JOB UNLESS IT CERTAIN TO INCLUDE SIGNIFICANT SHARE OF DETAILED DESIGN AND ENGINEERING WORK FOR OFFSITE UTILITIES AND INFRASTRUCTURE, WHICH DUKE ESTIMATED WOULD BE WORTH 200 TO 300 MILLION DOLLARS. (DUKE ESTIMATED TOTAL COST OF PETROCHEMICAL COMPLEX, INCLUDING TOWNSHIP FOR 3,000 INHABITANTS, OFFSITES, DOWNSTREAM PROCESS PLANTS, AND ETHYLENE CRACKER AT 750 MILLION TO 1 BILLION DOLLARS.) DUKE ALSO TROUBLED BY MOI'S DEFINITION OF MC'S ROLE. MC HELD RESPONSIBLE FOR PLANNING, SCHEDULING AND OVERSEEING CONTRACTOR PROGRESS ON ALL ASPECTS PETROCHEMICAL COMPLEX, YET WOULD HAVE NO AUTHORITY TO ENFORCE COMPLETION SCHEDULES SINCE CONTRACTORS WOULD SIGN CONTRACTS DIRECTLY WITH FMG RATHER THAN MC. ADMITTEDLY, MC ABLE WRITE PENALTY CLAUSES

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INTO CONTRACTS FMG WILL SIGN, BUT DUKE SAID USUAL PRACTICE
IN LUMP SUM CONTRACTS IS THAT CONTRACTORS JUDGED ONLY BY FINAL
PERFORMANCE AND REMAIN FREE FROM OUTSIDE CONTROL DURING COURSE
OF WORK. DUKE ALSO FELT MC'S ROLE OVEREMPHASIZED EXPERT
SUPERVISION AT EXPENSE OF DRAFTING WORK, WHICH WOULD INBALANCE
FLUOR'S PERSONNEL STRUCTURE. DUKE SAID HE WOULD ATTEMPT
SELL MOI ON ROLE FOR FLUOR SIMILAR TO THAT WHICH FLUOR UNDER-
TAKING FOR SAUDI ARABIA/PECTEN PETROCHEMICALS PROJECT, WHERE
FLUOR HIRED BY SAUDISOPERATING PARTNER SHELL CHEMICALS, AND
IN TURN HIRED C.F. BRAUN AT SHELL'S REQUEST TO DESIGN AND
COONSTRUCTIETHYLENE CRACKER. DUKE SAID FLUOR WOULD HANDLE NIGERIAN
PROJECT FROM ITS NEW OFFICES IN LOS ANGELES. FLUOR'S DUTCH,
UN, AND HOUSTON OFFICES BUSY WITH DOLLARS 7 BILLION IN CONTRACTS
FOR SAUDI ARABIA.

7. DUKE WAS APPARENTLY UNSUCCESSFUL. ONYIA SAID FRANKLY
FLUOR'S APPROACH ALL WRONG FOR NIGERIA. FIRM POINTED TO
HUGE CONTRACTS IN SAUDI ARABIA, TOOK ATTITUDE THAT QUOTE
THIS IS THE WAY IT'S DONE UNQUOTE. SAID NIGERIA, NATION
OF 70 MILLION WHERE PETROCHEMICAL PROJECT ORIENTED TO DOMESTIC
CONSUMPTION, TOTALLY UNLIKE SAUDI ARABIA, WHERE PROJECTS EXPORT
ORIENTED AND INTERNATIONAL MARKET FACTORS DETERMINE HOW TO
PROCEED. ONIYA ALSO SAID HE TOLD FLUOR THAT WHILE MC COHMRACT
MIGHT INVOLVE OFFSITES AND UTILITIES, FMG WOULD MAKE NO ADVANCE
COMMITMENTS. FINALLY, FLUOR TOOK POSITION THAT CONSULTANT
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CHEM SYSTEMS HAD ACCEPTED ITS SUGGESTED CHANGES, EXPRESSED VEXATION THAT BID DOCUMENTS WHEN ISSUED STILL REFLECTED INITIAL MOI POSITION. ONYIA SAID FLUOR WAS TOLD FMG, NT CONSULTANT, MAKES DECISION AND IF FLUOR DIDN'T LIKE IT THAT WAY THEY DOOR WAS OVER THERE. FLUOR, ONYIA SAID, WAS NOTSEELIMINATED BUT WITHDREW; HOWEVER, QUOTE WE HAD NO REGRETS WHEN THEY WITHDREW UNQUOTE.

8. COMMENT: FLUOR'S REJECTION ANOTHER EXAMPLE OF WHY NUMBER U.S. FIRMS FAIL WIN CONTRACTS HERE. LIKELY TO RUB NIGERIAN SENSITIVITIES WRONG WAY ARE CRITICAL COMPARISONS WITH HOW THINGS DONE ELSEWHERE, PATRONIZING ATTITUDE, INSISTENCE THAT COMPANY'S VIEWS ARE THE ONLY CORRECT ONCE, HARD SELL APPROACH. IN GENERAL, WHEN COMPANY'S VIEW ON BEST WAY TO ACCOMPLISH TASK CONFLICTS WITH FMG VIEW, FIRM'S RECOMMENDATIONS SHOULD BE PRESENTED LOW KEY AND ALLOWED TO PERCOLATE THROUGH BUREACRACY. THEY WILL OFTEN REAPPEAR IN GUISE OF NIGERIAN INITIATIVE. SUITABLE COMPROMISES CAN ALSO BE MADE. IF, HOWEVER, NO ACCEPTABLE AGREEMENT CAN BE REACHED AND FIRM CANNOT ACCEPT CONTRACT CONDITIONS PROPOSED BY FMG, THERE IS NO HARM IN SAYING SO, STATING REASONS HONESTLY BUT TACTIFULLY, AND DECLINING TO BID. IF THIS DS DONE AMICABLY, IT WILL PRESERVE CHANCES FOR FUTURE WORK.
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